

U.S. Rural electrification administration  
Cito  
ADFO  
Add

UNITED STATES DEPARTMENT OF AGRICULTURE  
Rural Electrification Administration

↑ SYSTEM ACQUISITIONS

Part I - REA Financing

The program of area rural electrification as pursued by REA borrowers has, in the normal course of events, established the acquisition of existing electric systems as, in many instances, a logical and essential step in any thorough-going approach to the rural electrification problem. Since the inception of the program, about one-third of the REA borrowers have received loans to purchase existing systems. They have completed or are in the process of completing over five hundred acquisitions.

In each instance in which REA has financed the purchase of existing facilities, it has been shown that the existing lines or system of lines were situated between two or more unserved areas, none of which was large enough to support a separate cooperative system and which needed to be combined if large numbers of unserved persons were to be reached; or the need for the acquisition was one of operation, requiring a project sufficiently large to achieve a level of operating cost low enough to make the project self-liquidating; or the service rendered by the existing system was of such poor character as not to be considered "central station service;" or the existing lines were spite lines built in opposition to the borrower's project.

Such purchases under the conditions outlined were incidental to the essential purpose of reaching unserved persons and were deemed an appropriate means to that end within the limitations of the REA Act of 1936, as amended. So long as the essential purpose of an acquisition is incidental to bringing service to unserved persons in rural areas, however accomplished, whether by aid through physical access or restoration of "cream" areas, the objectives of

JUN 4 1948



the program will be furthered and the borrower can qualify for a loan for the purposes intended.

As the job of electrifying the remaining unserved areas in America is aggressively undertaken, REA borrowers will undoubtedly encounter other instances where the only key to feasibility lies in the acquisition of existing facilities. Therefore, it is in order to consider the dual requirement arising out of such a condition.

The first requirement confronting a borrower interested in making an acquisition is that he establish specifically what could be accomplished if the acquisition were made. Most borrowers have little difficulty assembling this information where they have accurate unelectrified farm surveys, since they can determine approximately how many miles of line it will take to reach the unserved areas. Assuming studies or surveys indicate that the unserved areas alone are not feasible but when coupled with the proposed acquisition, feasibility results, it might be concluded at this point that the acquisition is vital and incidental to the extension of service into the unserved area. Before this conclusion is reached, however, it must be established that a feasible project would not result by coupling the unserved areas with the previously developed REA project. Otherwise there would be no basis for REA approving the acquisition. Conversely, if the previously developed project could not be enlarged by including the unserved areas without an unfeasible over-all project resulting, then the acquisition would seem to have potential merit and the borrower may desire to proceed to the second requirement -- that of assembling specific information about the acquisition.



For most acquisitions, especially the smaller ones, the following information would give REA the essential data required. Where the acquisition is large and comparatively complex, other information consistent with the scope of the transaction would be required.

1. Exact name and address of owner.
2. Miles of line in existing system.
3. Number of consumers connected.
4. Approximate cost of rehabilitation.
5. Approximate purchase price of system.
6. Retail rates now in effect on system.
7. Monthly KWH consumption by various classes of consumers for past 12 months or for the last full calendar year available.
8. Monthly revenue corresponding to (7) above.
9. Physical condition of system. (Give age, type of poles, conductor, voltage, etc. If power plant involved, give detailed information. If part of property, such as generating equipment, will be useless to the purchaser, estimate, if possible, the sale or salvage value of such equipment.)
10. List of other equipment, such as materials and supplies, transportation, etc., included in proposed transaction.
11. Quality of service rendered. (Kind of service, voltage fluctuations, whether 24-hour service, outages, etc.)
12. Indicate existing lines in red on map or sketch. (Also, how it is proposed to integrate system with present or proposed cooperative system.)
13. Where the proposed acquisition includes town distribution systems, supply information as to population, whether town or towns are incorporated, and detailed discussion if any franchise in effect.
14. Does the owner have an existing power contract? (Give rate structure, duration of contract, etc.)
15. Some of the above questions can be readily answered by reference to a copy of the last annual report (if available) submitted by the seller to the state regulatory body having jurisdiction. A copy of such a report, if obtainable, should be submitted along with the above information.



## SYSTEM ACQUISITIONS

### Part II - Use of General Funds

There have been instances in which borrowers, after making the surveys and preliminary feasibility checks mentioned in Part I, have submitted the required information to REA and have been subsequently advised that the acquisition contemplated could not be financed under the REA Act. A request for the use of General Funds for acquisition purposes or the approval of other methods of financing has sometimes followed by appropriate resolution by the board of directors.

The information REA needs, to make an administrative finding on the use of General Funds or any alternate method of financing proposed by a borrower for acquisition purposes, is as outlined in Part I above, except that the information about the new areas is not necessary to justify the acquisition as is true when Federal financing is requested. Other questions do loom up, of course, when alternate methods of financing are considered, such as sufficiency of general funds for immediate and future requirements, loan repayment record, security for private loans, etc., all of which must be disposed of satisfactorily.

In situations of this kind, the direct interest of the REA in the proposed transaction is limited to the extent of assuring itself, prior to the giving of any waivers under existing loan and security documents, that the security for loans heretofore made by it to the borrower will be unimpaired and that the borrower's ability to liquidate such Government loans as they become due will not be adversely affected.